

107TH CONGRESS
1ST SESSION

H. R. 1264

To amend the Internal Revenue Code of 1986 to provide individual income tax rate reductions, tax relief to families with children, marriage penalty relief, and to immediately eliminate the estate tax for two-thirds of all decedents currently subject to the estate tax.

IN THE HOUSE OF REPRESENTATIVES

MARCH 28, 2001

Mr. RANGEL (for himself and Mr. PASCRELL) introduced the following bill;
which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to provide individual income tax rate reductions, tax relief to families with children, marriage penalty relief, and to immediately eliminate the estate tax for two-thirds of all decedents currently subject to the estate tax.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 (a) SHORT TITLE.—This Act may be cited as the
5 “Tax Reduction Act of 2001”.

6 (b) AMENDMENT OF 1986 CODE.—Except as other-
7 wise expressly provided, whenever in this Act an amend-

1 ment or repeal is expressed in terms of an amendment
 2 to, or repeal of, a section or other provision, the reference
 3 shall be considered to be made to a section or other provi-
 4 sion of the Internal Revenue Code of 1986.

5 (c) SECTION 15 NOT TO APPLY.—No amendment
 6 made by this Act shall be treated as a change in a rate
 7 of tax for purposes of section 15 of the Internal Revenue
 8 Code of 1986.

9 **TITLE I—INDIVIDUAL INCOME**
 10 **TAX RATE REDUCTIONS; EX-**
 11 **PANSION OF EARNED INCOME**
 12 **CREDIT ASSISTANCE**

13 **SEC. 101. INDIVIDUAL INCOME TAX RATE REDUCTIONS.**

14 (a) IN GENERAL.—Section 1 is amended by adding
 15 at the end the following new subsection:

16 “(i) 12 PERCENT RATE BRACKET.—

17 “(1) IN GENERAL.—In the case of taxable years
 18 beginning after December 31, 2000—

19 “(A) the rate of tax under subsections (a),
 20 (b), (c), and (d) on taxable income not over the
 21 initial bracket amount shall be 12 percent, and

22 “(B) the 15 percent rate of tax shall apply
 23 only to taxable income over the initial bracket
 24 amount.

1 “(2) INITIAL BRACKET AMOUNT.—For purposes
2 of this subsection—

3 “(A) IN GENERAL.—Except as provided in
4 subparagraph (B), the initial bracket amount
5 is—

6 “(i) \$20,000 in the case of subsection
7 (a),

8 “(ii) 80 percent of the dollar amount
9 in clause (i) in the case of subsection (b),
10 and

11 “(iii) 50 percent of the dollar amount
12 in clause (i) in the case of subsections (c)
13 and (d).

14 “(B) PHASEIN.—The initial bracket
15 amount is—

16 “(i) $\frac{1}{4}$ the amount otherwise applica-
17 ble under subparagraph (A) in the case of
18 taxable years beginning during 2001, and

19 “(ii) $\frac{1}{2}$ such amount otherwise appli-
20 cable under subparagraph (A) in the case
21 of taxable years beginning during 2002.

22 “(3) INFLATION ADJUSTMENT.—

23 “(A) IN GENERAL.—In the case of any
24 taxable year beginning in a calendar year after
25 2003, the \$20,000 amount under paragraph

1 (2)(A)(i) shall be increased by an amount equal
2 to—

3 “(i) such dollar amount, multiplied by

4 “(ii) the cost-of-living adjustment de-
5 termined under subsection (f)(3) for the
6 calendar year in which the taxable year be-
7 gins, determined by substituting ‘calendar
8 year 2002’ for ‘calendar year 1992’ in sub-
9 paragraph (B) thereof.

10 “(B) ROUNDING RULES.—If any amount
11 after adjustment under subparagraph (A) is not
12 a multiple of \$50, such amount shall be round-
13 ed to the next lowest multiple of \$50.

14 “(4) ADJUSTMENT OF TABLES.—The Secretary
15 shall adjust the tables prescribed under subsection
16 (f) to carry out this subsection.”

17 (b) ADJUSTMENT IN COMPUTATION OF ALTER-
18 NATIVE MINIMUM TAX.—Paragraph (2) of section 55(a)
19 is amended to read as follows:

20 “(2) the sum of—

21 “(A) the regular tax for the taxable year,
22 plus

23 “(B) in the case of an individual, 3 percent
24 of so much of the individual’s taxable income
25 for the taxable year as is taxed at 12 percent.”

1 (c) REPEAL OF REDUCTION OF REFUNDABLE TAX
2 CREDITS.—

3 (1) Subsection (d) of section 24 is amended by
4 striking paragraph (2) and redesignating paragraph
5 (3) as paragraph (2).

6 (2) Section 32 is amended by striking sub-
7 section (h).

8 (d) CONFORMING AMENDMENT.—Subclause (II) of
9 section 1(g)(7)(B)(ii) is amended by striking “15 percent”
10 and inserting “12 percent”.

11 (e) EFFECTIVE DATE.—The amendments made by
12 this section shall apply to taxable years beginning after
13 December 31, 2000.

14 (f) PROTECTION OF SOCIAL SECURITY AND MEDI-
15 CARE.—The amounts transferred to any trust fund under
16 the Social Security Act shall be determined as if this Act
17 had not been enacted.

18 **SEC. 102. MODIFICATIONS TO EARNED INCOME TAX CRED-**
19 **IT.**

20 (a) INCREASES IN PERCENTAGES AND AMOUNTS
21 USED TO DETERMINE CREDIT; MARRIAGE PENALTY RE-
22 LIEF.—

23 (1) IN GENERAL.—Subsection (b) of section 32
24 is amended to read as follows:

25 “(b) PERCENTAGES AND AMOUNTS.—

1 “(1) PERCENTAGES.—The credit percentage,
2 the initial phaseout percentage, and the final phase-
3 out percentage shall be determined as follows:

“In the case of an eligible individual with:	The credit per- centage is:	The initial phase- out percentage is:	The final phase- out percentage is:
1 qualifying child	34	15.98	18.98
2 or more qualifying children	40	21.06	24.06
No qualifying children	7.65	7.65	7.65

4 “(2) AMOUNTS.—

5 “(A) IN GENERAL.—The earned income
6 amount and the initial phaseout amount shall
7 be determined as follows:

“In the case of an eligible individual with:	The earned in- come amount is:	The initial phase- out amount is:
1 qualifying child	\$8,140	\$13,470
2 or more qualifying children	\$10,820	\$13,470
No qualifying children	\$4,900	\$6,130.

8 In the case of a joint return where there is at
9 least 1 qualifying child, the initial phaseout
10 amount shall be \$2,500 greater than the
11 amount otherwise applicable under the pre-
12 ceding sentence.

13 “(B) FINAL PHASEOUT AMOUNT.—The
14 final phaseout amount is \$26,000 (\$28,500 in
15 the case of a joint return).”

16 (2) MODIFICATION OF COMPUTATION OF
17 PHASEOUT.—Paragraph (2) of section 32(a) is
18 amended to read as follows:

1 “(2) PHASEOUT OF CREDIT.—The amount of
 2 the credit allowable to a taxpayer under paragraph
 3 (1) for any taxable year shall be reduced (but not
 4 below zero) by the sum of—

5 “(A) the initial phaseout percentage of so
 6 much of the total income (or, if greater, the
 7 earned income) of the taxpayer for the taxable
 8 year as exceeds the initial phaseout amount but
 9 does not exceed the final phaseout amount, plus

10 “(B) the final phaseout percentage of so
 11 much of the total income (or, if greater, the
 12 earned income) of the taxpayer for the taxable
 13 year as exceeds the final phaseout amount.”

14 (3) TOTAL INCOME.—Paragraph (5) of section
 15 32(c) is amended to read as follows:

16 “(5) TOTAL INCOME.—The term ‘total income’
 17 means adjusted gross income determined without re-
 18 gard to—

19 “(A) the deductions referred to in para-
 20 graphs (6), (7), (9), (10), (15), (16), and (17)
 21 of section 62(a),

22 “(B) the deduction allowed by section
 23 162(l), and

24 “(C) the deduction allowed by section
 25 164(f).”

1 (4) CONFORMING AMENDMENTS.—

2 (A) Subsection (j) of section 32 is amend-
3 ed to read as follows:

4 “(j) INFLATION ADJUSTMENT.—

5 “(1) IN GENERAL.—In the case of any taxable
6 year beginning after 2002, each of the dollar
7 amounts in subsection (b)(2) shall be increased by
8 an amount equal to—

9 “(A) such dollar amount, multiplied by

10 “(B) the cost-of-living adjustment deter-
11 mined under section 1(f)(3), for the calendar
12 year in which the taxable year begins, deter-
13 mined by substituting ‘calendar year 2001’ for
14 ‘calendar year 1992’ in subparagraph (B)
15 thereof.

16 “(2) ROUNDING.—If any dollar amount, after
17 being increased under paragraph (1), is not a mul-
18 tiple of \$10, such dollar amount shall be rounded to
19 the nearest multiple of \$10.”

20 (B) Subparagraph (C) of section 32(c)(1)
21 is amended by striking “modified adjusted
22 gross income” and inserting “total income”.

23 (C) Paragraph (2) of section 32(f) is
24 amended to read as follows:

25 “(2) REQUIREMENTS FOR TABLES.—

1 “(A) IN GENERAL.—The provisions of sub-
 2 section (a)(1) and the provisions of subsection
 3 (a)(2) shall be reflected in separate tables pre-
 4 scribed under paragraph (1).

5 “(B) SUBSECTION (a)(1) TABLE.—The ta-
 6 bles prescribed under paragraph (1) to reflect
 7 the provisions of subsection (a)(1) shall have in-
 8 come brackets of not greater than \$50 each for
 9 earned income between \$0 and the earned in-
 10 come amount.

11 “(C) SUBSECTION (a)(2) TABLE.—The ta-
 12 bles prescribed under paragraph (1) to reflect
 13 the provisions of subsection (a)(2) shall have in-
 14 come brackets of not greater than \$50 each for
 15 total income (or, if greater, the earned income)
 16 above the initial phaseout threshold.”

17 (b) REPEAL OF DENIAL OF CREDIT WHERE INVEST-
 18 MENT INCOME.—Section 32 is amended by striking sub-
 19 section (i).

20 (c) EARNED INCOME TO INCLUDE ONLY AMOUNTS
 21 INCLUDIBLE IN GROSS INCOME.—

22 (1) IN GENERAL.—Section 32(c)(2)(A)(i) (de-
 23 fining earned income) is amended by inserting “, but
 24 only if such amounts are includible in gross income

1 for the taxable year” after “other employee com-
2 pensation”.

3 (2) CONFORMING AMENDMENT.—Section
4 32(c)(2)(B) is amended by striking “and” at the end
5 of clause (iv), by striking the period at the end of
6 clause (v) and inserting “, and”, and by adding at
7 the end the following new clause:

8 “(vi) the requirement under subpara-
9 graph (A)(i) that an amount be includible
10 in gross income shall not apply if such
11 amount is exempt from tax under section
12 7873 or is derived directly from restricted
13 and allotted land under the Act of Feb-
14 ruary 8, 1887 (commonly known as the In-
15 dian General Allotment Act) (25 U.S.C.
16 331 et seq.) or from land held under Acts
17 or treaties containing an exception provi-
18 sion similar to the Indian General Allot-
19 ment Act.”

20 (d) MODIFICATION OF JOINT RETURN REQUIRE-
21 MENT.—Subsection (d) of section 32 is amended to read
22 as follows:

23 “(d) MARRIED INDIVIDUALS.—

24 “(1) IN GENERAL.—If the taxpayer is married
25 at the close of the taxable year, the credit shall be

1 allowed under subsection (a) only if the taxpayer
2 and his spouse file a joint return for the taxable
3 year.

4 “(2) MARITAL STATUS.—For purposes of para-
5 graph (1), an individual legally separated from his
6 spouse under a decree of divorce or of separate
7 maintenance shall not be considered as married.

8 “(3) CERTAIN MARRIED INDIVIDUALS LIVING
9 APART.—For purposes of paragraph (1), if—

10 “(A) an individual —

11 “(i) is married and files a separate re-
12 turn, and

13 “(ii) has a qualifying child who is a
14 son, daughter, stepson, or stepdaughter of
15 such individual, and

16 “(B) during the last 6 months of such tax-
17 able year, such individual and such individual’s
18 spouse do not have the same principal place of
19 abode,

20 such individual shall not be considered as married.”

21 (e) EXPANSION OF MATHEMATICAL ERROR AUTHOR-
22 ITY.—Paragraph (2) of section 6213(g) is amended by
23 striking “and” at the end of subparagraph (K), by striking
24 the period at the end of subparagraph (L) and inserting

1 “, and”, and by inserting after subparagraph (L) the fol-
 2 lowing new subparagraph:

3 “(M) the entry on the return claiming the
 4 credit under section 32 with respect to a child
 5 if, according to the Federal Case Registry of
 6 Child Support Orders established under section
 7 453(h) of the Social Security Act, the taxpayer
 8 is a noncustodial parent of such child.”

9 (f) EFFECTIVE DATE.—The amendments made by
 10 this section shall apply to taxable years beginning after
 11 December 31, 2001.

12 **TITLE II—MARRIAGE PENALTY** 13 **RELIEF**

14 **SEC. 201. MARRIAGE PENALTY RELIEF.**

15 (a) STANDARD DEDUCTION.—

16 (1) IN GENERAL.—Paragraph (2) of section
 17 63(c) (relating to standard deduction) is amended—

18 (A) by striking “\$5,000” in subparagraph
 19 (A) and inserting “twice the dollar amount in
 20 effect under subparagraph (C) for the taxable
 21 year”,

22 (B) by adding “or” at the end of subpara-
 23 graph (B),

1 (C) by striking “in the case of” and all
2 that follows in subparagraph (C) and inserting
3 “in any other case.”, and

4 (D) by striking subparagraph (D).

5 (2) INCREASE ALLOWED AS DEDUCTION IN DE-
6 TERMINING MINIMUM TAX.—Subparagraph (E) of
7 section 56(b)(1) is amended by adding at the end
8 the following new sentence: “The preceding sentence
9 shall not apply to so much of the standard deduction
10 under subparagraph (A) of section 63(c)(2) as ex-
11 ceeds the amount which would be such deduction but
12 for the amendment made by section 201(a)(1) of the
13 Tax Reduction Act of 2001.”

14 (3) TECHNICAL AMENDMENTS.—

15 (A) Subparagraph (B) of section 1(f)(6) is
16 amended by striking “(other than with” and all
17 that follows through “shall be applied” and in-
18 serting “(other than with respect to sections
19 63(c)(4) and 151(d)(4)(A)) shall be applied”.

20 (B) Paragraph (4) of section 63(c) is
21 amended by adding at the end the following
22 flush sentence:

23 “The preceding sentence shall not apply to the
24 amount referred to in paragraph (2)(A).”.

1 (c) EFFECTIVE DATE.—The amendments made by
 2 this section shall apply to taxable years beginning after
 3 December 31, 2000.

4 **TITLE III—ESTATE TAX RELIEF.**

5 **SEC. 301. INCREASE IN EXEMPTION EQUIVALENT OF UNI-** 6 **FIED CREDIT.**

7 (a) IN GENERAL.—Subsection (c) of section 2010
 8 (relating to applicable credit amount) is amended by strik-
 9 ing the table and inserting the following new table:

“In the case of estates of decedents dying, and gifts made, during:	The applicable exclusion amount is:
2002	\$2,000,000
2003 and 2004	\$2,100,000
2005 and 2006	\$2,200,000
2007 and 2008	\$2,300,000
2009	\$2,400,000
2010 or thereafter	\$2,500,000.”

10 (b) REPEAL OF SPECIAL BENEFIT FOR FAMILY-
 11 OWNED BUSINESS INTERESTS.—

12 (1) Section 2057 is hereby repealed.

13 (2) Paragraph (10) of section 2031(c) is
 14 amended by inserting “(as in effect on the day be-
 15 fore the date of the enactment of this parenthet-
 16 ical)” before the period.

17 (3) The table of sections for part IV of sub-
 18 chapter A of chapter 11 is amended by striking the
 19 item relating to section 2057.

20 (c) CORRECTION OF TECHNICAL ERROR AFFECTING
 21 LARGEST ESTATES.—Paragraph (2) of section 2001(c) is

1 amended by striking “\$10,000,000” and all that follows
2 and inserting “\$10,000,000. The amount of the increase
3 under the preceding sentence shall not exceed the sum of
4 the applicable credit amount under section 2010(c) and
5 \$359,200.”

6 (d) EFFECTIVE DATE.—The amendments made by
7 this section shall apply to estates of decedents dying, and
8 gifts made, after December 31, 2001.

9 **SEC. 302. CREDIT FOR STATE DEATH TAXES REPLACED**
10 **WITH DEDUCTION FOR SUCH TAXES.**

11 (a) REPEAL OF CREDIT.—Section 2011 (relating to
12 credit for State death taxes) is hereby repealed.

13 (b) DEDUCTION FOR STATE DEATH TAXES.—Part
14 IV of subchapter A of chapter 11 is amended by adding
15 at the end the following new section:

16 **“SEC. 2058. STATE DEATH TAXES.**

17 “(a) ALLOWANCE OF DEDUCTION.—For purposes of
18 the tax imposed by section 2001, the value of the taxable
19 estate shall be determined by deducting from the value
20 of the gross estate the amount of any estate, inheritance,
21 legacy, or succession taxes actually paid to any State or
22 the District of Columbia, in respect of any property in-
23 cluded in the gross estate (not including any such taxes
24 paid with respect to the estate of a person other than the
25 decedent).

1 “(b) PERIOD OF LIMITATIONS.—The deduction al-
2 lowed by this section shall include only such taxes as were
3 actually paid and deduction therefor claimed within 4
4 years after the filing of the return required by section
5 6018, except that—

6 “(1) If a petition for redetermination of a defi-
7 ciency has been filed with the Tax Court within the
8 time prescribed in section 6213(a), then within such
9 4-year period or before the expiration of 60 days
10 after the decision of the Tax Court becomes final.

11 “(2) If, under section 6161 or 6166, an exten-
12 sion of time has been granted for payment of the tax
13 shown on the return, or of a deficiency, then within
14 such 4-year period or before the date of the expira-
15 tion of the period of the extension.

16 “(3) If a claim for refund or credit of an over-
17 payment of tax imposed by this chapter has been
18 filed within the time prescribed in section 6511, then
19 within such 4-year period or before the expiration of
20 60 days from the date of mailing by certified mail
21 or registered mail by the Secretary to the taxpayer
22 of a notice of the disallowance of any part of such
23 claim, or before the expiration of 60 days after a de-
24 cision by any court of competent jurisdiction be-

1 comes final with respect to a timely suit instituted
2 upon such claim, whichever is later.

3 Refund based on the deduction may (despite the provisions
4 of sections 6511 and 6512) be made if claim therefor is
5 filed within the period above provided. Any such refund
6 shall be made without interest.”

7 (c) CONFORMING AMENDMENTS.—

8 (1) Subsection (a) of section 2012 is amended
9 by striking “the credit for State death taxes pro-
10 vided by section 2011 and”.

11 (2) Subparagraph (A) of section 2013(c)(1) is
12 amended by striking “2011,”.

13 (3) Paragraph (2) of section 2014(b) is amend-
14 ed by striking “, 2011,”.

15 (4) Sections 2015 and 2016 are each amended
16 by striking “2011 or”.

17 (5) Subsection (d) of section 2053 is amended
18 to read as follows:

19 “(d) CERTAIN FOREIGN DEATH TAXES.—

20 “(1) IN GENERAL.—Notwithstanding the provi-
21 sions of subsection (c)(1)(B) of this section, for pur-
22 poses of the tax imposed by section 2001, the value
23 of the taxable estate may be determined, if the ex-
24 ecutor so elects before the expiration of the period
25 of limitation for assessment provided in section

1 6501, by deducting from the value of the gross es-
2 tate the amount (as determined in accordance with
3 regulations prescribed by the Secretary) of any es-
4 tate, succession, legacy, or inheritance tax imposed
5 by and actually paid to any foreign country, in re-
6 spect of any property situated within such foreign
7 country and included in the gross estate of a citizen
8 or resident of the United States, upon a transfer by
9 the decedent for public, charitable, or religious uses
10 described in section 2055. The determination under
11 this paragraph of the country within which property
12 is situated shall be made in accordance with the
13 rules applicable under subchapter B (sec. 2101 and
14 following) in determining whether property is situ-
15 ated within or without the United States. Any elec-
16 tion under this paragraph shall be exercised in ac-
17 cordance with regulations prescribed by the Sec-
18 retary.

19 “(2) CONDITION FOR ALLOWANCE OF DEDUC-
20 TION.—No deduction shall be allowed under para-
21 graph (1) for a foreign death tax specified therein
22 unless the decrease in the tax imposed by section
23 2001 which results from the deduction provided in
24 paragraph (1) will inure solely for the benefit of the
25 public, charitable, or religious transferees described

1 in section 2055 or section 2106(a)(2). In any case
 2 where the tax imposed by section 2001 is equitably
 3 apportioned among all the transferees of property
 4 included in the gross estate, including those de-
 5 scribed in sections 2055 and 2106(a)(2) (taking into
 6 account any exemptions, credits, or deductions al-
 7 lowed by this chapter), in determining such decrease,
 8 there shall be disregarded any decrease in the Fed-
 9 eral estate tax which any transferees other than
 10 those described in sections 2055 and 2106(a)(2) are
 11 required to pay.

12 “(3) EFFECT ON CREDIT FOR FOREIGN DEATH
 13 TAXES OF DEDUCTION UNDER THIS SUBSECTION.—

14 “(A) ELECTION.—An election under this
 15 subsection shall be deemed a waiver of the right
 16 to claim a credit, against the Federal estate
 17 tax, under a death tax convention with any for-
 18 eign country for any tax or portion thereof in
 19 respect of which a deduction is taken under this
 20 subsection.

21 “(B) CROSS REFERENCE.—

“See section 2014(f) for the effect of a deduction
 taken under this paragraph on the credit for foreign
 death taxes.”

22 (6) Subparagraph (A) of section 2056A(b)(10)
 23 is amended—

24 (A) by striking “2011,” and

1 (B) by inserting “2058,” after “2056,”.

2 (7)(A) Subsection (a) of section 2102 is amend-
3 ed to read as follows:

4 “(a) IN GENERAL.—The tax imposed by section 2101
5 shall be credited with the amounts determined in accord-
6 ance with sections 2012 and 2013 (relating to gift tax and
7 tax on prior transfers).”

8 (B) Section 2102 is amended by striking sub-
9 section (b) and by redesignating subsection (c) as
10 subsection (b).

11 (C) Section 2102(b)(5) (as redesignated by sub-
12 paragraph (B)) and section 2107(c)(3) are each
13 amended by striking “2011 to 2013, inclusive,” and
14 inserting “2012 and 2013”.

15 (8) Subsection (a) of section 2106 is amended
16 by adding at the end the following new paragraph:

17 “(4) STATE DEATH TAXES.—The amount which
18 bears the same ratio to the State death taxes as the
19 value of the property, as determined for purposes of
20 this chapter, upon which State death taxes were paid
21 and which is included in the gross estate under sec-
22 tion 2103 bears to the value of the total gross estate
23 under section 2103. For purposes of this paragraph,
24 the term ‘State death taxes’ means the taxes de-
25 scribed in section 2011(a).”

1 (9) Section 2201 is amended—

2 (A) by striking “as defined in section
3 2011(d)”, and

4 (B) by adding at the end the following new
5 flush sentence:

6 “For purposes of this section, the additional estate tax
7 is the difference between the tax imposed by section 2001
8 or 2101 and the amount equal to 125 percent of the max-
9 imum credit provided by section 2011(b), as in effect be-
10 fore its repeal by the Tax Reduction Act of 2001.”

11 (10) Paragraph (2) of section 6511(i) is amend-
12 ed by striking “2011(c), 2014(b),” and inserting
13 “2014(b)”.

14 (11) Subsection (c) of section 6612 is amended
15 by striking “section 2011(c) (relating to refunds due
16 to credit for State taxes),”.

17 (12) The table of sections for part II of sub-
18 chapter A of chapter 11 is amended by striking the
19 item relating to section 2011.

20 (13) The table of sections for part IV of sub-
21 chapter A of chapter 11 is amended by adding at
22 the end the following new item:

“Sec. 2058. State death taxes.”

23 (d) EFFECTIVE DATE.—The amendments made by
24 this section shall apply to estates of decedents dying after
25 December 31, 2001.

1 **SEC. 303. VALUATION RULES FOR CERTAIN TRANSFERS OF**
2 **NONBUSINESS ASSETS; LIMITATION ON MI-**
3 **NORITY DISCOUNTS.**

4 (a) IN GENERAL.—Section 2031 (relating to defini-
5 tion of gross estate) is amended by redesignating sub-
6 section (d) as subsection (f) and by inserting after sub-
7 section (c) the following new subsections:

8 “(d) VALUATION RULES FOR CERTAIN TRANSFERS
9 OF NONBUSINESS ASSETS.—For purposes of this chapter
10 and chapter 12—

11 “(1) IN GENERAL.—In the case of the transfer
12 of any interest in an entity other than an interest
13 which is actively traded (within the meaning of sec-
14 tion 1092)—

15 “(A) the value of any nonbusiness assets
16 held by the entity shall be determined as if the
17 transferor had transferred such assets directly
18 to the transferee (and no valuation discount
19 shall be allowed with respect to such nonbusi-
20 ness assets), and

21 “(B) the nonbusiness assets shall not be
22 taken into account in determining the value of
23 the interest in the entity.

24 “(2) NONBUSINESS ASSETS.—For purposes of
25 this subsection—

1 “(A) IN GENERAL.—The term ‘nonbusi-
2 ness asset’ means any asset which is not used
3 in the active conduct of 1 or more trades or
4 businesses.

5 “(B) EXCEPTION FOR CERTAIN PASSIVE
6 ASSETS.—Except as provided in subparagraph
7 (C), a passive asset shall not be treated for pur-
8 poses of subparagraph (A) as used in the active
9 conduct of a trade or business unless—

10 “(i) the asset is property described in
11 paragraph (1) or (4) of section 1221(a) or
12 is a hedge with respect to such property,
13 or

14 “(ii) the asset is real property used in
15 the active conduct of 1 or more real prop-
16 erty trades or businesses (within the mean-
17 ing of section 469(c)(7)(C)) in which the
18 transferor materially participates and with
19 respect to which the transferor meets the
20 requirements of section 469(c)(7)(B)(ii).

21 For purposes of clause (ii), material participa-
22 tion shall be determined under the rules of sec-
23 tion 469(h), except that section 469(h)(3) shall
24 be applied without regard to the limitation to
25 farming activity.

1 “(C) EXCEPTION FOR WORKING CAP-
2 ITAL.—Any asset (including a passive asset)
3 which is held as a part of the reasonably re-
4 quired working capital needs of a trade or busi-
5 ness shall be treated as used in the active con-
6 duct of a trade or business.

7 “(3) PASSIVE ASSET.—For purposes of this
8 subsection, the term ‘passive asset’ means any—

9 “(A) cash or cash equivalents,

10 “(B) except to the extent provided by the
11 Secretary, stock in a corporation or any other
12 equity, profits, or capital interest in any entity,

13 “(C) evidence of indebtedness, option, for-
14 ward or futures contract, notional principal con-
15 tract, or derivative,

16 “(D) asset described in clause (iii), (iv), or
17 (v) of section 351(e)(1)(B),

18 “(E) annuity,

19 “(F) real property used in 1 or more real
20 property trades or businesses (as defined in sec-
21 tion 469(e)(7)(C)),

22 “(G) asset (other than a patent, trade-
23 mark, or copyright) which produces royalty in-
24 come,

25 “(H) commodity,

1 “(I) collectible (within the meaning of sec-
2 tion 401(m)), or

3 “(J) any other asset specified in regula-
4 tions prescribed by the Secretary.

5 “(4) LOOK-THRU RULES.—

6 “(A) IN GENERAL.—If a nonbusiness asset
7 of an entity consists of a 10-percent interest in
8 any other entity, this subsection shall be ap-
9 plied by disregarding the 10-percent interest
10 and by treating the entity as holding directly its
11 ratable share of the assets of the other entity.
12 This subparagraph shall be applied successively
13 to any 10-percent interest of such other entity
14 in any other entity.

15 “(B) 10-PERCENT INTEREST.—The term
16 ‘10-percent interest’ means—

17 “(i) in the case of an interest in a cor-
18 poration, ownership of at least 10 percent
19 (by vote or value) of the stock in such cor-
20 poration,

21 “(ii) in the case of an interest in a
22 partnership, ownership of at least 10 per-
23 cent of the capital or profits interest in the
24 partnership, and

1 “(iii) in any other case, ownership of
2 at least 10 percent of the beneficial inter-
3 ests in the entity.

4 “(5) COORDINATION WITH SUBSECTION (b).—
5 Subsection (b) shall apply after the application of
6 this subsection.

7 “(e) LIMITATION ON MINORITY DISCOUNTS.—For
8 purposes of this chapter and chapter 12, in the case of
9 the transfer of any interest in an entity other than an in-
10 terest which is actively traded (within the meaning of sec-
11 tion 1092), no discount shall be allowed by reason of the
12 fact that the transferee does not have control of such enti-
13 ty if the transferee and members of the family (as defined
14 in section 2032A(e)(2)) of the transferee have control of
15 such entity.”

16 (b) EFFECTIVE DATE.—The amendments made by
17 this section shall apply to transfers after the date of the
18 enactment of this Act.

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